PepsiCo, Inc.

Annual Report 1976

PepsiCo: The Second Decade

During the first 10 years following its formation in 1965, PepsiCo carefully and consciously created a diversified structure designed to reach specific, attainable goals.

Its strategic approach was to compete in a limited number of fields—beverages, snack foods, sporting goods and transportation services—in which it would have leading or major brands and the proven management ability to maintain or improve their market position.

PepsiCo's businesses share several important characteristics:

- Each has demonstrated a record, or the reasonable expectation, of yielding long-term growth and returns at a better-than-average rate.
- Each has characteristics which are different, though complementary, so that, despite the effects of their external factors, the overall result should be a balanced composite performance over time.
- Each has the capacity for responding to systematic planning and execution in order to produce desired results.

With a structure that offers a sound base for the continuing expansion of its horizons and its rewards, PepsiCo has become a dynamic mechanism offering outstanding products and services to the consumer, and attractive, steadily growing returns to its investors.

This report explores how PepsiCo, as it enters its second decade, now well begun, is refining and imaginatively improving that mechanism's function.

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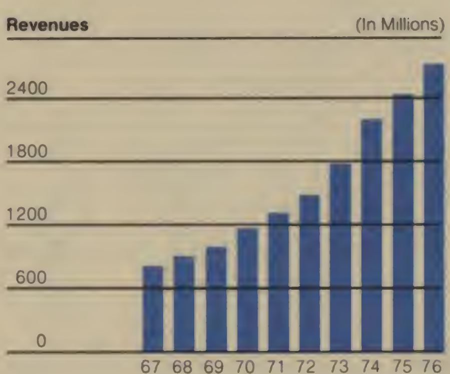
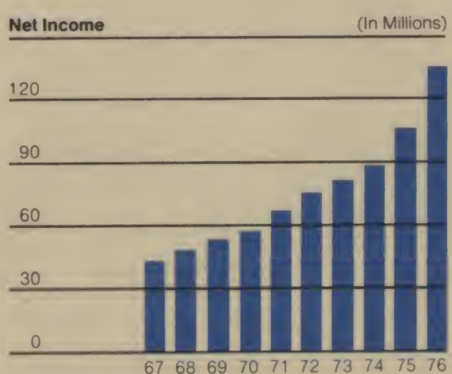
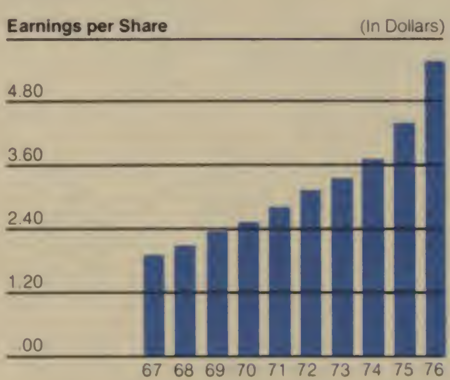
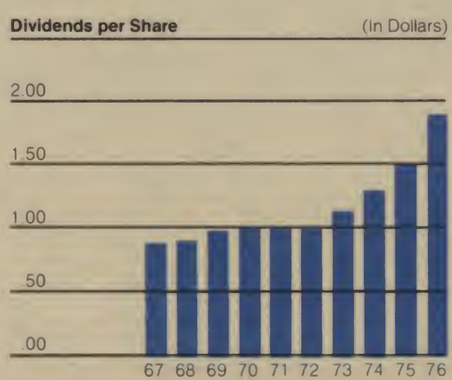
Financial Highlights

	1976	1975	Change
Revenues	**$2,727,455,000**	$2,426,215,000	+12%
Net income	**$136,033,000**	$107,480,000	+27%
Net income per share	**$5.56**	$4.41	+26%
Average shares outstanding	**24,483,943**	24,361,957	—
Dividends	**$46,309,000**	$36,435,000	+27%
Plant and equipment expenditures	**$121,620,000**	$75,716,000	+61%
Long-term debt	**$278,588,000**	$296,299,000	−6%
Shareholders' equity	**$752,982,000**	$654,216,000	+15%









To Our Shareholders:

In 1976, PepsiCo achieved the most dramatic earnings performance in its history. On revenues of $2.7 billion, a 12 percent increase over 1975, net income rose 27 percent, from $107.5 million to $136.0 million. This was equal to $5.56 per share, 26 percent higher than in the previous year.

A major factor in achieving our excellent results in 1976 was the outstanding performance of our key domestic soft drink and snack food operations. The continuing vitality of these core businesses was demonstrated by their very favorable trends in unit volume growth—well in excess of both population growth and the growth of their respective industries—and their steadily improving margins.

All of the company's major lines of business contributed to our increased 1976 sales and operating profits and continued to perform strongly against their competitors in an expanding market. In relative terms, our sporting goods and transportation operations faced more difficult conditions and therefore yielded considerably slower earnings growth than the outstanding gains achieved by soft drinks and snack foods.

Overseas operations as a whole achieved good growth in their sales, despite the temporary setbacks caused by adverse external conditions in a few areas, and both soft drinks and food products continued to build a strong base for expansion in the international market.

Our acquisition of Lee Way Motor Freight in August, together with the divestitures of the Chandler Leasing operation and PepsiCo Truck Rental earlier in the year, have greatly improved the structure of our organization and enabled us to reallocate our assets and management ability to better advantage, with benefits already evident in 1976.

The past year saw significant further gains in PepsiCo's key financial returns and balance-sheet ratios, resulting from a deliberate company-wide program aimed at improving cash flows and raising margins and returns. As a result, total debt was reduced $34 million during the year, following the major reduction of $149 million achieved in 1975, and our portfolio of marketable securities increased by $50 million. After-tax return on sales rose to 5.0 percent,

Donald M. Kendall, *Chairman and Chief Executive Officer*

Andrall E. Pearson, *President*

and our return on equity advanced again by more than a point to reach 18.1 percent—its highest level in seven years.

In May, reflecting the substantial improvement in our performance and in anticipation of continuing gains, the Board of Directors voted a 25 percent increase—the largest in PepsiCo's 11-year history—in the quarterly rate of our dividend, from 40 to 50 cents per share. It was the fifth dividend increase in the past four years and resulted in a current annual yield of $2 per share—double the $1 per share of 1972. (Note: On February 24, 1977, the Board raised the quarterly dividend again by 10 cents, to 60 cents per share, resulting in a 50 percent increase in less than a year. The Board also proposed a three-for-one stock split pending shareholder approval.)

With our improving financial position, we also devoted special attention to a program of investment spending for PepsiCo's future. The rate of expenditures for new product development, major advertising and promotion campaigns, and expansion of distribution capability exceeded by far the level in any prior year of our history.

This year, we will make a considerable further investment in our future growth. Capital spending for plant and equipment in 1977 should set a new record—about $150 million—enabling us to increase our capacities to meet the surging demand for PepsiCo's products. In the years ahead, this continuing program of reinvestment, at attractive returns, should be of increasing benefit to our present and future shareholders.

PepsiCo's strong performance over the last two years, with earnings growth for that period of 52 percent, clearly demonstrates our ability to prosper in the face of adverse economic conditions, emerging stronger and in a better position than ever in terms of management ability and financial resources.

In years when the economy as a whole is rapidly expanding, even indifferently managed businesses often show respectable growth. Indeed, during the first half of 1976, the post-recession recovery made rapid growth rates almost commonplace. But we believe that consistent long-term rewards will go to those businesses which can also gain an increasing share of a less rapidly expanding market. We have done this in each of the past five years in all of our major businesses.

The steady and reliable growth PepsiCo seeks to achieve should result from its proven combination of effective strategies and internal discipline, from its ability to control costs, increase productivity, offer improved products, price competitively and market more effectively—and do all of them well, year after year.

Realistically, we do not expect PepsiCo's future earnings gains to continue at the exceptional rates of 1975 and 1976, but the strong momentum and fundamental improvements we have made in our business suggest that PepsiCo's future gains should sustain a strong growth pattern into the foreseeable future.

In the last six months, we have welcomed three distinguished members to PepsiCo's Board of Directors: Caspar W. Weinberger, a former U.S. Secretary of Health, Education and Welfare, and now an executive and director of the Bechtel organization, in September; T. Vincent Learson, former Chairman and Chief Executive Officer of International Business Machines Corp., who was reelected to the Board after resigning in 1975 to become Chief of the U.S. Delegation to the Law of the Sea Conference, in January, 1977; and, pending approval by the Civil Aeronautics Board, William T. Coleman, Jr., the recent U.S. Secretary of Transportation with many years of public service, and currently a Distinguished Fellow at the Woodrow Wilson International Center for Scholars, also in January. We are fortunate to have the benefit of their varied abilities and of their expertise gained in government service.

Again, we thank you for your continued confidence and support.

Donald M. Kendall

Donald M. Kendall
Chairman and Chief Executive Officer

Andrall E. Pearson

Andrall E. Pearson
President

Right: "Girl with a Dolphin" by the British sculptor, David Wynne, graces the fountain in the main courtyard of PepsiCo's World Headquarters in Purchase, New York.

Operations Review

Brand performance

In all its businesses, PepsiCo offers to the consumer well-known products and services that are among the leaders in their fields. During 1976, each major brand maintained or improved its competitive position in the market.

For soft drinks and snack foods—the core products of PepsiCo since the merger of Pepsi-Cola and Frito-Lay in 1965—the past year was an exceptional one in terms of increased sales, unit volume growth, and competitive improvement.

Pepsi-Cola Company's four major brands (Pepsi-Cola, Diet Pepsi, Mountain Dew and new Pepsi Light) had a combined growth rate far above that of the soft drink industry as a whole. Each reached record volume levels. This was achieved in all channels of distribution, in all geographical areas of the United States, and among all kinds of bottlers—large and small, urban and rural, franchised and company-owned.

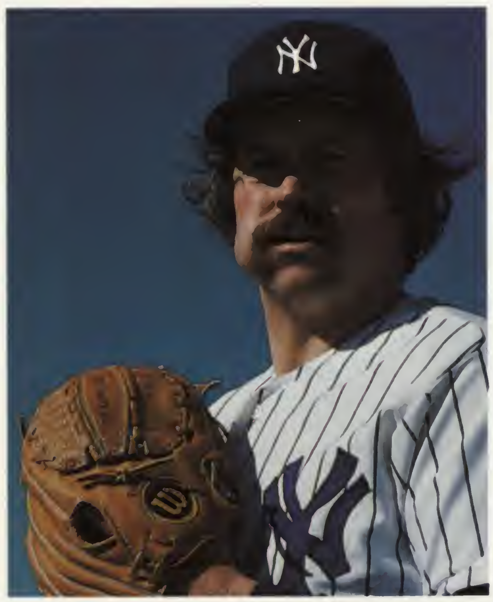
Frito-Lay's snack food products, long among the leaders in their field, showed volume growth in 1976 at a rate nearly double that of their industry. Such well-known brand names as Lay's potato chips, Doritos tortilla chips, Fritos brand corn chips and Ruffles ridged potato chips all demonstrated their continued popularity with consumers and paced the year's impressive gains. Other brand favorites such as Chee·tos cheese puffs and Rold Gold pretzels also showed increases.

Wilson Sporting Goods Co. continued to lead its industry in the popularity of its golf and tennis lines, as well as its equipment for many team sports.

Wilson 1200 golf clubs sold extraordinarily well in the nation's pro shops. Moreover, with elegant new styling, the Wilson Staff golf clubs became the second largest seller. Their performance on the professional circuit was equally impressive: they won more tournaments and prize money than any other clubs on the market.

The introduction of Wilson's Advantage premium wood tennis racket has been an outstanding success, as have the Chris Evert Autograph model for women and Wilson's new Extra Duty tennis ball—by far the leading seller. Wilson tennis balls are accepted by the U.S. Tennis Association for use in all its national championship tournaments.

Sales of such other leading Wilson products as the A2000 baseball glove, the official NBA basketball, NFL foot-



Above: The A2000 baseball glove is a valued partner for many of the nation's best-known baseball figures—like Catfish Hunter, the New York Yankees' star pitcher, who here casts a baleful eye on home plate.

Left: Doritos brand tortilla chips come in three flavors—toasted corn taste, Nacho Cheese flavor and taco flavor. First introduced in 1966, the Doritos brand is now one of Frito-Lay's largest selling lines of snack foods.

Right: Pepsi-Cola's 64 ounce container, "The Boss", is a major contributor to Pepsi-Cola brand growth.


PEPSI-COLA
64
PEPSI-COLA
64

Above: Wilson retains the services of major U.S. and foreign sports figures who have found that Wilson products help them become winners. Jerry Pate, unanimous choice for Professional Golf Association rookie of the year, and also winner of the U.S. Open, the Canadian Open and the Pacific Masters in 1976, stands beside his Wilson Staff golf clubs.

ball, and Hagen professional golf bags also showed improved performance over the previous year.

PepsiCo's transportation division made substantial progress during the year. Its well-known northAmerican Van Lines (NAVL) operation maintained a strong position in the very competitive household-goods moving market and achieved further improvements in customer satisfaction. In addition, its special services that move newly manufactured products and high-value electronic equipment demonstrated significant competitive improvement during 1976.

PepsiCo Building Systems, which virtually completed one of the largest classroom installations ever, in Florida, continued to supply the domestic market with relocatable modular structures used for bank branches, temporary office space and other purposes and entered the overseas market for such structures. Lee Way Motor Freight, Inc.,acquired in August, showed a strong increase in revenues and profits during its first year under PepsiCo's direction, and further improved its market share.

Above: Monsieur Henri's largest seller, Yago Sant'Gria (shown with its companion Yago White, now in full U.S. distribution) is a natural accompaniment to good times and good friends.

Left: Lay's brand potato chips, a familiar sight to all shoppers, appeal to consumers because of their unrivalled taste and consistent quality, and also because they are available in a variety of sizes, from single portions to the "twin pack" shown.

Yago Sant'Gria, the blend of Spanish wine and citrus fruits marketed by Monsieur Henri Wines, Ltd., has for several years been among the leading imported wines sold in the United States. With higher U.S. shipments in 1976 than in 1975, it has retained its basic appeal to young middle-income householders, the major segment of its original following, while making encouraging progress abroad as well.

Stolichnaya vodka, the only Russian-made vodka in the U.S. market, has won strong acceptance as a premium product and become the fastest growing brand among vodkas, the current growth category in the spirits business. Volume is far ahead of the terms of the original vodka-for-Pepsi exchange agreement with the Soviet Union—so much so that, based on PepsiCo's commitment for increased vodka shipments over the next several years, the U.S.S.R. last year announced plans to build three new Pepsi-Cola bottling plants there (in Moscow, Leningrad and Tallinn) in addition to the one presently operating in Novorossiysk and another scheduled to open this year in Yevpatoriya.

Above: Fritos brand corn chips and entertainment just naturally go together.

Right: Monsieur Henri's line of high quality, popular priced Franz Weber Wines from Germany includes Liebfraumilch (shown), Moselbluemchen and Zeller Schwarze Katz.

Above: Diet Pepsi, shown here sporting its attractive new can package design graphics, broadened the scope of its appeal in 1976 to include all consumers through a new advertising campaign identifying it as "the taste that's changing the taste of America."

Right: Chris Evert, voted Sportswoman of the Year by *Sports Illustrated* magazine for 1976 and the number one ranked woman tennis player in the world, uses the racquet which bears her name, the Wilson Chris Evert Autograph model.

NEIL LEIFER SPORTS ILLUSTRATED

Marketing Activity

Skilled advertising, promotion and merchandising built consumer awareness and a growing demand for PepsiCo's outstanding brands.

Pepsi-Cola continued its long tradition of memorable, highly motivating advertising campaigns with the introduction in September of "Have a Pepsi Day"—a joyful, positive theme reflecting many of the vibrant "Pepsi Generation" elements of its recent successful campaigns, "Come Alive!," "You've Got a Lot to Live," and "Feelin' Free." (One version of the new TV commercials features the product in cups, reflecting renewed marketing effort in the growing fountain market—including a promotion which has placed over 200 million decorated glasses in the hands of consumers.)

During 1976, Pepsi-Cola also mounted one of the year's most highly competitive, most discussed campaigns, "The Pepsi Challenge." First tested in 1975 in Dallas, its basic assumption was that many consumers would actually prefer the taste of Pepsi-Cola to the major competitor in a "blind" comparison. This assumption was solidly confirmed by research tests that provided the content for the campaign's television and other media advertising. Results of the Dallas campaign—a 50 percent volume increase—and subsequent national research confirmation involving thousands of respondents in 426 separate areas, encouraged extension of the campaign to other cities, including Los Angeles and New York. Further expansion of the campaign in 1977 will be on a selective basis, according to individual market requirements.

An improved formulation and new advertising helped Diet Pepsi, which recently introduced bold new packaging graphics, climb toward leadership in its category. Market expansion to 78 percent of national availability helped Mountain Dew continue to be the industry's fastest-growing non-diet brand.

New one-liter and two-liter bottles for Pepsi-Cola were developed and successfully introduced into a number of key markets in response to growing consumer awareness of metric measures, but the major packaging innovation under development during the year was a plastic bottle. The Pepsi-Cola polyester bottle enjoys such unique advantages as an important shatterproof feature and the production flexibility to be molded in a 64-

ounce size, and has been acclaimed for its durability and lightness. Polyester has been fully approved by the Food and Drug Administration for use in soft-drink bottles since 1973. The company has been vigorously pursuing a program to establish a solid base of supply for such bottles and expects to have them in a significant portion of the market this year.

Frito-Lay's Nacho Cheese flavor Doritos brand tortilla chips benefited strongly from an increased exposure of highly effective TV commercials featuring comedian Avery Schreiber. A new advertising campaign for Fritos brand corn chips was introduced in the closing months of the year with the theme "Life's More Fun When You're Munching One." The TV commercials feature "real" people (rather than models) in natural situations stressing the enjoyment of life—with Fritos corn chips as a logical accompaniment. In addition, a new campaign for Lay's brand potato chips, featuring TV personality Tim Conway, has been prepared for use in selected markets.

Advertising and promotional support for the entire line of Frito-Lay products was increased materially during the year, in terms of both a significant increase in spending and the employment of programs to build their distribution.

To serve the growing number of large stores staying open longer hours, on more days, Frito-Lay has expanded use of a "two-man route" concept—using a team approach to ensure optimum use of its 6,000-man sales force and delivery fleet to maintain constant retail shelf stocking, seven days a week.

Excellent results have been gained from salesmen's presentations aimed at securing increased display representation for Frito-Lay products (often on racks custom-made for a store's entire snack section) based on their more attractive profit potential for dealers. (These approaches have also been used with great success by Pepsi-Cola in the soft drink business.)

New television commercials for Wilson's ProStaff golf ball, as well as the T2000 steel tennis racket and the Chris Evert women's racket (as demonstrated by their foremost users, U.S. Open and Wimbledon champions

Above: Stolichnaya, the only Russian vodka available in America, introduced a quart bottle during the year and achieved sales which outpaced the industry average for vodka, the fastest growing segment of the spirits business.

Left: Introduced last September, the "Have a Pepsi Day" advertising campaign builds on the Pepsi Generation theme of previous campaigns and helps identify the product with the pleasant and joyful experiences of daily living.

Right: Wilson's premium wood racquet, the Advantage, has a slimmer, aerodynamic design and combines vulcanized fibre lamination overlays with Wilson's unique Strata-Bow wood construction.

Above: Avery Schreiber, who has been doing television commercials for Frito-Lay since 1970, is here cast as the Cheese Chef for Doritos brand Nacho Cheese flavor tortilla chips.

Right: "The Pepsi Challenge," one of 1976's most dramatic and attention-getting advertising campaigns, pitted Pepsi-Cola against Coca-Cola in blind taste tests all over the country. Carried out under controlled conditions by an independent testing firm, "The Challenge" showed that more Americans prefer Pepsi to Coke.

Jimmy Connors and Chris Evert) were featured on peak-audience telecasts of the year's major golf and tennis championships.

Wilson continued to place increased strategic marketing emphasis on the "consumable" component of its business—such products as golf and tennis balls and clothing items—often employing techniques used successfully in PepsiCo's other consumer businesses. A notable example was the use of a twin-pack display promotion introduced at year-end for Wilson tennis balls, stressing their suitability as a gift—marking the introduction of the multiple-purchase concept to this type of product. Similarly, consumer awareness of the ProStaff golf ball was stimulated by a test sampling-by-mail campaign similar to those used for grocery products. Other techniques used to extend brand visibility include licensing the production of various novelty radios, T-shirts, drinking glasses and other items bearing Wilson identification, often in the simulated form of footballs, baseballs and tennis ball cans. Recent packaging for many Wilson products recognizes the "touch-and-feel" appeal of containers that allow the product within to be handled without opening the carton—frequently the stimulus to a buying decision for these products.

Wilson's service capability was improved by the opening of a new regional distribution center in Chicago, the company's largest and most modern, and by system-wide warehouse productivity gains of more than 10 percent that have reduced the time required to process customer orders, while lowering capital requirements for inventory investment.

NAVL's household-goods, new products and high value products operations all expanded their field sales forces during 1976. The successful household-goods Service Watch program was extended to all product lines to provide better shipment control and in-transit information to customers. Lee Way's marketing organization was restructured in 1976 and is currently implementing a number of new programs designed to further that carrier's market performance.

Monsieur Henri proved in marketing research during 1976 that the same types of advertising, promotion and merchandising techniques used elsewhere by PepsiCo also worked well for wine products. The findings of those tests will be applied in coming months to benefit the division's principal brands—Yago Sant'Gria, Weber German wines and Stolichnaya Russian vodka—and several important new products as well.

Stolichnaya vodka's distribution in bars and restaurants was aided greatly by the introduction of a quart package, with major support by point-of-purchase materials, and a "Russian Bare" campaign urging consumers to drink Stolichnaya "the Russian way"—well chilled, all by itself.

The Weber German wine brand, which includes the popular varieties Liebfraumilch, Moselbluemchen and Zeller Schwarze Katz, gained national distribution for the first time in 1976, with encouraging consumer response—leading to plans for increased advertising and promotion support in 1977.

Above: A new television commercial for Fritos brand corn chips, featuring children on a beach, was first aired in October of last year.

Right: For the year-end holiday shopping season, Wilson introduced a new twin-pack tennis ball carton which proved ideal as a gift and helped stimulate sales.

New Products and Services

On the strength of its established reputation for quality, PepsiCo successfully developed and launched major new products and services with maximum impact.

Pepsi Light, one of the soft drink industry's few major product entries in some years, was a success in its first full year on the market. Carefully positioned as a cola product with fewer calories plus a pleasing lemony taste, it was introduced in late 1975, and made available to two-thirds of the nation's consumers by the end of 1976. Even before reaching national distribution, it has achieved a very favorable market position and will be introduced into additional areas during 1977, according to plan.

Prontos chips, a unique product made of corn, wheat and oats and identified as the "crunchy-grain snack," moved successfully from its initial test markets into broader distribution which made it available to about half the U.S. population.

Just entering the test process in three markets late in 1976 was a barbecue-flavored version of Frito-Lay's popular ridged potato chips, Ruffles—the first time that product has been made available in a flavored variety. Results will be carefully evaluated in coming months to determine whether further distribution is indicated.

In response to emerging consumer attitudes, a new type of snack product entirely free of artificial additives or preservatives, and enclosed in a foil package for greatly prolonged freshness, was introduced in California. The first entry was Frito-Lay's Natural Style Potato Chips, followed by Frito-Lay's Natural Style Corn Chips. As expected, both products have met with strong consumer interest, without serious impact on sales of the corresponding regular forms of those products.

The Wilson ProStaff golf ball, with a unique aerodynamic design that greatly enhances its playing characteristics, quickly won consumer acceptance during its first full year in the market, fully meeting its objective of substantially improving Wilson's volume of golf ball sales. In addition, the Walter Hagen golf line was also expanded with the successful introduction of Onyx golf clubs, designed for women golfers, and the Ultra-Lite golf bag.

Following the success of its top-quality wood racket, the Advantage, Wilson has now introduced the World

Above: Frito-Lay's family of Kwik Snak products are designed primarily to meet the needs of convenience store shoppers by providing a variety of cracker, cake and meat snacks, as well as nutmeats, to complement the company's other individual-portion snack foods.

Left: Wilson's World Class, introduced in late 1976, has a new aluminum I-Beam design, which provides firmness and stability, and features an interchangeable polyurethane foam handle pallet adaptable to different hand sizes.

Right: Pepsi Light, with half the calories of regular Pepsi-Cola plus a lemony taste, successfully expanded its availability to two thirds of the United States in its first full year on the market.


Lemony taste in.
Half the calories out.
ONE-WAY BOTTLES
RESEAL CAPS
PEPSI LIGHT
CONTAINS SUGAR:
COLA AND LEMON
DIETARY CARBONATED BEVERAG

Class, a top-grade aluminum racket with the elongated-head configuration currently favored by many players, with encouraging early reaction from the trade. Wilson now offers tennis players their choice of a superior racket in any of the popular materials—wood, aluminum or steel.

The company has also capitalized on the rapid emergence of an entirely new sport by introducing four new models of "racquetball" rackets. The game is played with a strung, short-handled racket, usually on handball courts and with similar rules. Requiring no other specialized equipment or court space, this informal, leisure-time activity has become one of the country's fastest growing sports, with a high dollar-volume potential.

With the acquisition of Lee Way Motor Freight, announced in 1975 and completed immediately upon Interstate Commerce Commission approval in August of 1976, PepsiCo's transportation division entered a new field of service: the intercity transportation of general commodities.

Lee Way, one of the 15 largest U.S. general commodity motor carriers (among more than 1,000), moved rapidly to enhance its already sizable market position by adding three mid-Atlantic states and markets eastward to Buffalo to its service capability, making it truly a transcontinental carrier. Lee Way now serves almost the entire, fast-growing "Sun Belt" from California to Georgia and the Carolinas, as well as most of the industry-rich Midwest and Eastern markets. Quickly capitalizing on its extended operating authority, Lee Way opened 12 new terminals in the newly acquired area and seven in its original one—a 30 percent increase in its terminal network in a single year.

Lee Way's acquisition is expected to provide the transportation division with a valuable additional source of revenue and an opportunity to broaden the application of management and marketing techniques already proven in PepsiCo's other transportation activities, while significantly enhancing its ability to provide quality service.

PepsiCo Building Systems has developed a new "knocked-down" type of relocatable structure which it manufactures at its production site,

Left: Lee Way, with 562 truck tractors and 2,561 trailers, is one of the nation's largest general-commodity freight carriers. The company's route network (above), prior to its acquisition last August by PepsiCo, is shown in blue. Routes added since then are in red.

Right: Wilson is producing racquets for the growing new sport "racquetball," played on handball courts and with similar rules.

Far right, top: Frito-Lay successfully introduced two snack foods in the California market which are free of any additives or artificial preservatives: Frito-Lay's Natural Style Corn Chips and Potato Chips.

Far right, bottom: Introduced in early fall 1976, Onyx golf clubs, designed for women, have a lower center of gravity which helps provide greater loft on wood and long-iron shots.

then disassembles for shipping and reassembly at distant locations.

In 1976, northAmerican Van Lines inaugurated a new service which utilized its agents' facilities for the distribution and warehousing of materials and equipment for major construction projects.

During the year, Monsieur Henri became the exclusive U.S. distributor for the Premiat group of quality wines produced in Romania, and for Burati Italian wines, produced and bottled under that label solely for Monsieur Henri.

Having won strong acceptance in the U.S. market, Yago Sant'Gria is proving popular in other countries as well. In Germany during 1976, its volume more than doubled, and it has found a sizable initial market in Japan as well. With full acquisition of its Spanish production facility and distribution rights in 70 countries, Monsieur Henri is now prepared to market the product selectively on a worldwide basis.

International Operations

PepsiCo's many years of experience as a leading international marketer enable it to serve a growing worldwide market for an expanding range of products and services.

PepsiCo International is the worldwide marketer of Pepsi-Cola, Mirinda flavors and other companion products in 134 countries and territories outside the United States. There are presently 558 plants in 124 countries producing those products, including 520 belonging to independent franchise owners, 24 belonging to the company, and 14 bottler-canners operating under contract.

During 1976, four areas formerly served by neighboring producers began bottling operations of their own: Crete, Swaziland, Macao and New Caledonia. In addition, new plants were inaugurated in Rimini, Italy; Fez, Morocco; Lippstadt, Germany; Kermanshah, Khorramshahr and Narmak, Iran; Cuzco, Peru; Recife, Brazil; and Lagos, Nigeria. In addition, over 50 new bottling lines were installed by bottlers throughout the world to increase their production capacity.

The year was one which saw encouraging progress in most areas, although operations were affected by non-controllable forces in a few key markets, particularly Mexico and Argentina.

Strongest gains came from the increasingly affluent Middle East, with good growth also in Latin America's major petroleum exporter, Venezuela. Progress was above average in Brazil, Puerto Rico, Colombia, Central America, Germany, Thailand and Eastern Europe.

The strongly competitive "Pepsi Challenge" campaign was extended from its base in the United States to markets in Canada and Brazil, with good results. Pepsi-Cola's share position in Canada reached a record level.

In Puerto Rico, the company-owned operation was first in the world market with the largest-yet soft drink bottle, a two-liter returnable, nicknamed "El Doble." With strong consumer response to its value appeal, "El Doble" quickly produced favorable volume gains. In other widely scattered areas, similar results followed the introduction of a one-liter package.

In Japan, renewed marketing effort, paced by the introduction of a competitively priced package for Pepsi-Cola and of a Mirinda orange flavor product containing 10 percent fruit juice without artificial coloring, helped

Right: In Mexico City, a Sabritas route salesman unloads his product. Mexico, the biggest success story for PepsiCo Foods International, has been a testing ground for products and marketing strategies now employed by PFI in other parts of the world.

Far right: Holiday celebrations in Japan are festive and colorful—with Pepsi-Cola (and the Mirinda flavored line of soft drinks) a part of the scene. The bright decorations pictured here in the Asakusa section of Tokyo almost obscure the rows of shops below.


PEPSI

reverse a sales downtrend in that market.

In Taiwan, where PepsiCo's flavor line is called Warinta, an apple flavor of that brand quickly achieved a good market position.

In all areas, it was a year of confident bottler investment in the essentials of their businesses—trucks, glass, production and merchandising equipment, and marketing funds.

PepsiCo Foods International (PFI)—which markets products in Mexico, Spain, Venezuela, Brazil, Canada, Japan and Puerto Rico—has had an exceptionally fine year.

Sabritas, the leading snack food company in Mexico, continued to build market share, sales and profits despite the effect of the Mexican devaluation. Mexico has been PFI's leading success story for the past several years, as well as the proving ground for many marketing strategies now being expanded to other countries. Last year alone, the operation added more than 200 routes to its distribution system.

The experience gained in Mexico is rapidly helping PepsiCo Foods in Spain to build a comparable record. Introduction of such brands as Fritos corn chips, Doritos tortilla chips, and Baconcitos ham-flavored chips, plus a major distribution expansion of 150 new routes, helped the company open 40,000 new accounts—or as many new accounts as the total Spanish snack food business had two years ago.

In 1976, a major new snack-food merchandising technique called Simplex was developed and rolled out in Spain. A method of displaying on-premise packages in strips on a specially designed display stand, Simplex has several important advantages: it reduces sales service time by half; permits a controlled pattern of product presentation, with the prominent display of high-profit items; and assures better product freshness because of the ease of product rotation.

PFI's Venezuelan operation, a major grocery-products company, doubled the growth rate of its largest selling item, premium-grade pasta, to solidify its leadership position in that segment of the market. A major pasta capacity expansion project was completed in 1976 to support future sales growth.

In Canada, the manufacturing assets of the failing Raymond Snack Food Company were acquired by Frito-Lay Canada, thus reducing its dependence upon U.S.-produced products. This should have a strong long-term effect on improving its operating margins.

PepsiCo Foods-Japan has entered into a new joint-venture company called Fujiya Frito-Lay, owned equally by PepsiCo and the Fujiya Confectionery Company.

It is anticipated that this joint venture company will significantly expand the distribution base for Frito-Lay products in the Japanese snack food market—second in size only to that in the United States.

Major progress was made in PepsiCo Foods-Brazil, with new product introductions and distribution expansion moving this operation for the first time into the leading market position.

Frito-Lay of Puerto Rico Inc., another PFI operation and the island's leading snack food company, opened a new manufacturing plant late in 1976 which will significantly reduce its dependence upon product imported from the mainland, and contribute to improving its long-term margins.

After several years of acquisitions, some divestitures and a carefully planned capital expansion program, a clearly focused business concept—to become a leading snack food brand in a selected list of countries—is becoming an operating reality for the Foods International division. Overall strengthening of local management, improved product lines, expanded distribution, and effective financial control programs for both operating expenses and balance-sheet items have placed PepsiCo Foods International in an excellent position to be an important growth business for PepsiCo in the years ahead.

Wilson's progress abroad has been slowed somewhat by the softening of demand for golf products in some key countries, but it has steadily improved its competitive standing to capture a leading position in its major markets, the United Kingdom and Canada, and among imported equipment in Japan and Australia.

In Japan, Wilson introduced a

Left: Planned to meet the growing tennis racquet demand of the European market, Wilson officially opened a new plant in Galway, Ireland in October. An Irish Wilson employee here puts the finishing touches on a row of popularly priced wood racquets.

Right: A Pepsi truck in Caracas, Venezuela competes with other vehicles for road space. More Pepsi-Cola is sold in Venezuela than in any other South American country.


northAmerican
VAN LINES

Wilson-Lite golf club model, reduced approximately one ounce in weight per club—an innovation expected to win strong appeal in that market. The company also introduced a new, lighter weight professional graphite driver with a persimmon-wood head.

Wilson took its first step into the international badminton market by marketing shuttlecocks bearing the trademarks—"Snobird" in white and "Yellowbird" in optic yellow. Initial sales will be in Canada, with expansion into Europe and the Far East now in preparation.

Major steps by Wilson in 1976 toward development of its international business included completion of a new production facility for tennis equipment in Galway, Ireland, and the opening of new, modern and convenient sales offices in Brussels and the London area. In addition, a Wilson tennis ball with U.S. specifications will be made available to the world market this year, under agreement with another producer.

PepsiCo's transportation operations outside the U.S., with some 250 agent offices abroad, include northAmerican's Canadian subsidiary. Like its U.S. counterpart, it has profitably augmented its basic capability, moving household goods, with specialized services that include transporting manufactured products to distribution points and handling shipments of costly, fragile items such as computers and photostatic copiers. In 1976, the Canadian operation showed important improvement in its market leadership, and greatly expanded its specialized moving business.

As previously noted, Monsieur Henri's successful introduction of Yago Sant'Gria into Germany is an instance of market expansion. In addition, it will give major marketing support this year to a significant wine business in Canada for Yago products other than Sant'Gria.

Left: A northAmerican truck crosses the Rideau Canal near Canada's Parliament buildings in Ottawa, Canada. In 1976, northAmerican's Canadian operation showed significant improvement in strengthening its position in the market.

Right: In Puerto Rico, Pepsi-Cola's introduction of the world's largest-yet soft-drink bottle, the two-litre "El Doble," was well received.

Planning Tomorrow's Growth

Without proper preparation, growth can be costly, but as PepsiCo's businesses continue to expand, imaginative and careful planning helps ensure their optimum productivity and maximum returns.

As they develop, PepsiCo's operations have ongoing requirements in several critical areas. They need an expanding manufacturing capacity to meet growing consumer demand. They need new systems, employing advanced technology, to make the most efficient use of manpower and physical equipment. They need a constantly replenished reservoir of trained, talented people to fill management positions at every level. Programs in all these vital areas are in place throughout PepsiCo; their effectiveness has already contributed to the corporation's profitability and will be vital to the continuation of its future growth.

Perhaps no aspect of PepsiCo's systematic preparation for anticipated growth is more dramatic or encouraging than that of Frito-Lay's comprehensive effort to improve the productivity of its work force, the output capacity of its physical plant, the speed and efficiency of its distribution and order-processing procedures, and its overall utilization of assets. These programs helped it to improve its contribution to corporate profit substantially in 1975, with important benefits continuing into the past year as well.

A key element in this effort is the "Double in Place" production program. More than a code name or hopeful ideal, it has already become a literal reality in many parts of the system. In a number of existing operations, current product output is twice its former level in the identical manufacturing floor space and with the same number of employees, thanks to larger, faster, more sophisticated equipment (much of it designed by Frito-Lay engineers), better maintenance, and the use of process-evaluation techniques that monitor individual employee performance and provide a rapid, regular feedback of achievement levels. These concepts are being implemented in present facilities, and will be included in all future installations.

Coupled with this plan is the application of computer technology to optimize utilization of Frito-Lay's fleet of some 400 over-the-road trailers that move finished product from 37 production sites to 350 distribution points for subsequent daily delivery to outlets by some 1,300 local sales operations. The important cost savings

yielded by this program have already largely offset substantial inflationary cost increases for fuel, labor and other needs in the past three years, enabling the company to maintain an essentially constant delivery cost during that period. At the same time, this better scheduling capability has enabled Frito-Lay to use its fleet's formerly empty return trips to transport its own raw materials, Pepsi-Cola concentrate and packaging materials, and finished Wilson products to destinations enroute, at a further corporate saving.

Computer controls have also increased Frito-Lay's ability to process and fill salesmen's daily product requirements more efficiently, with the important additional benefit of making pertinent, specific brand performance data rapidly available to product managers and other marketing personnel for better analysis and evaluation of test results, competitive activity, pricing patterns, and other vital market information.

All of these applications of advanced techniques not only make possible more efficient handling of current data, but will enable Frito-Lay to accommodate future growth without a corresponding increase in the work force.

Pepsi-Cola bottling operations in many parts of the world have anticipated the impact of possible shortages of water and acceptable sugars by utilizing water-reclamation and sugar-refining processes, designed by PepsiCo engineers, which also provide improved adherence to quality standards and significantly reduced operating costs.

Computer models have enabled many bottlers to plan the installation of new production lines and other facilities more efficiently.

At Wilson, computer applications in order-processing have produced marked improvements in service efficiency. In addition, better control procedures have made it possible to monitor more accurately the results of sales drives by type of outlet and territory, and thus improve their direction for maximum effectiveness. Wilson's national sales-call average rose again for the fourth consecutive year. Control of receivables should be improved substantially by new computerized credit procedures now being installed. These and other functional achievements, including cost reductions in manufacturing operations and the introduction of new design and process approaches, are contributing to Wilson's current profitability and its ability to grow tomorrow with increasingly favorable returns.

NAVL's high value products division is planning further expansion of its network of regional distribution centers, which are expected to provide stronger market thrust for that operation.

Lee Way is in the process of enlarging the capability of its on-line computer systems. Planned for implementation in 1977 is an on-line freight bill system which will provide far more reliable and timely billing and "real time" information with regard to the status of any customer shipment (shipment status inquiries will be answered in seconds rather than hours). It will also help improve operating efficiency in both Lee Way's administrative and field operation functions.

In providing the talent and skills which tomorrow's PepsiCo will

Above: This soft-drink manufacturing plant in Cidra, Puerto Rico, opened in December 1976, serves 65 countries in the Caribbean, South America, the Middle East, Southeast Asia, the Far East and Australasia, and has an annual production capacity of more than 1.2 million gallons of concentrate—enough to yield 400 million cases (or 9.6 billion 8-ounce bottles) of finished product yearly.

Left: At a company-owned multi-million dollar facility in Irving, Texas, Frito-Lay employees carry on an extensive research program to develop new strains of raw materials and new snack food products, as well as new and more efficient manufacturing equipment.

Right: Processing orders and controlling inventory with the aid of computers at Wilson has helped significantly in improving service efficiency.

require, the corporation has established superior training and development programs in all its operations.

The educational and training services of the Pepsi-Cola Management Institute (PCMI) last year provided live seminars on virtually every aspect of the soft drink industry, from management motivation to warehousing, to some 1,500 bottler and company personnel. In addition, a new 10-lesson videotape series on route management (supplementing ones for production and route sales) was distributed to 255 of the 355 U.S. bottlers participating in PCMI's unique nationwide educational TV network.

During the year, PepsiCo International established a mobile workshop in Mexico for its technical staff, augmenting the functions of its New York training center, and expanded the capability of its product-control field laboratories in Canada, Mexico, Japan and South Africa.

Frito-Lay's training function, among the most extensive and advanced in industry, has a comprehensive manpower planning program geared to meet its growth needs at every level

Above: Lee Way trucks are lined up at the company's largest West Coast terminal in Southgate, California, near Los Angeles.

Right: The Pepsi-Cola Management Institute provides educational training services to franchise bottlers and company personnel in the form of live seminars and videotape lessons.

Far right: northAmerican Van Lines opened a new, fully equipped truck-maintenance terminal in Fort Wayne, Indiana, in January, 1976. With 100,000 square feet of work space, 150 mechanics repaired and refurbished nearly 1,000 trucks in the facility's first year of operation.

from delivery routes to senior management positions.

Some of Frito-Lay's newer personnel have become part of a staff of 131 engaged in many avenues of research and engineering in a program that includes agricultural and genetic studies to produce improved varieties of potatoes and corn; packaging research to improve product resistance to spoilage; chemical and nutritional research to improve product wholesomeness and food value; engineering innovation to maximize ingredient and energy economy and a host of other technological innovations yielding higher quality and cost effectiveness. Physical facilities to house these activities will soon be augmented by construction of an addition to the present Frito-Lay research building at Irving, Texas, doubling its laboratory space.

Monsieur Henri's acquisition of Spanish and German wineries has greatly improved the economic basis of its business, enabling it as producer rather than merely distributor to compete more effectively with domestic products, while better controlling quality and reliability of sourcing. Exclusively a wine-importing company originally, Monsieur Henri now produces 80 percent of the wine it sells. The direction taken since the company's acquisition in 1972 has been to retain its identity as an importer of prestige wines, and at the same time to build its potential to reach a growing mass market for popularly priced wines, both in this country and abroad, using the marketing techniques PepsiCo has employed for its other consumer products.

PepsiCo and the Public

Part of a modern company's success is measured by its continuing demonstration of responsible corporate citizenship in major areas of public accountability. PepsiCo's record is outstanding.

Quality assurance. As a major producer of widely popular food and beverage products, PepsiCo recognizes as its foremost public responsibility an obligation to market products which consumers everywhere can rely on to be safe, wholesome and of consistently high quality, as well as appetizing and fresh; to package those products truthfully and safely; and to make every reasonable effort to encourage the public's responsible disposal of those packages once their contents have been consumed.

Employment policy. Equality of employment opportunity is a matter of law. At PepsiCo, it is also a matter of principle. Throughout the corporation, a steadily increasing number of ethnic minority members and women are moving into positions at the entry, supervisory, middle-management and higher levels.

More than 700 managers and supervisors in the Pepsi-Cola organization have now received specific training in the provisions of the law which pertain to employment and personnel practices, thus assuring the strongest and broadest possible commitment to compliance with its letter and spirit regarding all applicants and present employees.

At Frito-Lay, affirmative action has been directed toward continuing to expand job opportunities in management, supervision and higher-skilled positions for women and minority employees. Affirmative action goals for each key unit are in place and monitored continuously through computerized reporting. Similar efforts are directed toward handicapped employees.

Environmental protection. The growing public and governmental concern for preservation of the environment is one shared by PepsiCo in all its operations—both from a moral commitment and for reasons of cost effectiveness.

Food-processing-operations, for example, discharge a sizable amount of effluent material into municipal sewage facilities. To help defray their operating costs, many communities impose tax surcharges on industrial contributors—representing a substantial present and future impact on PepsiCo's profitability. Actually, pro-

Right: Hanscell Gordon (right), manager of Frito-Lay's Brentwood, Maryland plant, located near Washington, D.C., here checks Fritos brand corn chips just off the production line, prior to their being boxed for distribution.

Far right: Bobbie DePue (left), an area syrup sales representative for Pepsi-Cola in Phoenix, discusses the needs of one of her account customers.

grams have been underway for some time to install at several existing food and soft drink plants, and build into those planned for the future, cost-effective waste treatment facilities that significantly reduce the effluents that result in such surcharges.

Food-plant research is now in progress to explore the feasibility of various degrees of treatment, ranging from removal of solid particles or material with high oxygen demand to complete filtration yielding recyclable pure water. This investigation also includes the economic potential of recovering discharged solids (which are, in fact, largely a high-grade food) for resale as a component for livestock feed.

In many international markets which do not have municipal waste treatment comparable to that in the U. S., Pepsi-Cola plants have installed facilities equal in size to (and often more complex than) those now serving small U.S. cities and which discharge only contaminant-free water. In such areas as the Philippines and Venezuela, to cite recent examples, industrial systems designed by PepsiCo have won the approval of environmental authorities where conventional approaches were either unacceptable or too costly.

Pepsi-Cola bottling operations in many areas where water is scarce, or where local authorities limit the industrial use of water, utilize sophisticated water-reclamation systems—a technology in which PepsiCo is recognized as an industrial leader.

Safety and health. At all PepsiCo manufacturing sites, renewed emphasis has been placed on maintaining safe and healthful working environments. Drivers of the respective truck fleets operated by company divisions participate in ongoing programs to encourage observance of road safety and responsible driving procedures.

Energy conservation. Economy in the use of all types of fuel is not only a national policy objective, aimed at reducing America's dependence on foreign energy sources, but also a corporate imperative in the face of escalating costs.

An important aspect of Frito-Lay's "Double in Place" program, described earlier, is that the improved productivity of its facilities will help offset rising fuel costs. The energy consumption for each pound produced has already been lowered from an average of 6,000 BTUs in 1973 to 5,500, with a target for 1980 in the vicinity of 5,000—well within the guidelines recommended by the Federal Energy Administration for that date. New facilities will operate in an area of 4,000 BTUs.

PepsiCo operations with large truck fleets are, of course, heavy users of petroleum products. In Pepsi-Cola, Frito-Lay and the transportation division, a fuel conservation program has been in effect since the 1973 energy crisis, involving not only optimized scheduling but also upgraded maintenance, truck modification (including air shields that reduce wind resistance, and the use of radial tires), and other techniques that have produced significant improvement in mileage per gallon throughout the organization.

Community programs. The Pepsi-Cola/National Basketball Association Hotshot program, inaugurated in 1976, is a series of local competitions based on a traditional playground game, leading to regional semi-finals and a national championship final,

with college scholarships going to six final winners. Intended to demonstrate Pepsi-Cola's interest in and involvement with young people and their communities, it drew the participation during its first year of more than 1,300,000 boys and girls between 9 and 18 years of age, at some 6,000 playgrounds across the country—making it the largest community recreation program ever undertaken by any corporation.

Pepsi-Cola, in cooperation with the Distributive Education Clubs of America, has helped students in more than 2,000 high schools in some 500 cities "Learn and Earn" through a 25-lesson program with management support from local bottlers. Participating students learn free-enterprise principles by earning money through class projects and student stores for their clubs and other activities.

The Public Broadcasting Service's television program *Black Journal*, now in its eighth season, is the longest running, nationally televised public-affairs program devoted to black concerns. Pepsi-Cola Company's financial grant, begun in 1976, helps support the series and focuses attention on the important historical and contemporary role of black Americans in U.S. society.

Ethical standards. During the year, PepsiCo issued to its employees a document which set forth in detail company policy on several matters of concern. The principles it stated were not new; they had in fact long been an understood guide to PepsiCo's operations—though never articulated so explicitly, or brought together in a comprehensive statement. In the present climate of close scrutiny of the practices of all business enterprise, however, it seemed appropriate and necessary to spell out PepsiCo's stand, to lessen the possibility of misunderstanding. A summary of its key points follows:

- PepsiCo's objective is to continue to be a good corporate citizen in every country in which it does business. As a company based in the United States, it recognizes its responsibility to the interests of that country. In addition, it recognizes each host country's priorities respecting economic and social development, including industrial and regional growth, environmental quality,

Left: Lee Way was one of the nation's first major trucking companies to install air shields on the roofs of its truck cabs. The reduction in drag on the trailers as they move over the road results in fuel savings of approximately 5 percent—equal to over one million gallons of gasoline per year.

Right: "Hotshot," a nationwide basketball skills competition sponsored by Pepsi-Cola in conjunction with the National Basketball Association, involved more than 1,300,000 boys and girls ages 9-18 in 1976. A series of play-offs culminated in the national championships, held at the NBA All Star game on February 13, 1977 in Milwaukee, Wisconsin.


PEPSI
HOTSHOT
3


HOTSHOT


PEPSI
HOTSHOT


HOTSHOT


PEPSI
HOTSHOT
BRAVES


PEPSI

the availability of employment opportunities, and the transfer and advancement of technology and innovation.

• PepsiCo believes that a fundamental principle of international investment is mutuality. It reinvests a reasonable portion of its earnings from investments in host countries, employs and trains their nationals, takes account of their rules and objectives regarding balance of payment and credit policies, etc.; at the same time, it expects them to honor their treaty and other obligations with company affiliates, providing them equal treatment with indigenous enterprises.

• PepsiCo will not seek improper advantage by rendering gifts or other benefits to public officials or political parties, or become directly involved in political activities. It will, however, undertake to communicate information and opinions on issues which may affect PepsiCo, and will encourage contributions of its employees' time, money or resources to political or other activity, on an entirely personal and voluntary basis.

• Employees and their families are not permitted to have significant interests in or affiliations with enterprises doing business with the company when their duties include decisions that could be influenced by such interests. They are not permitted to exchange improper considerations with such enterprises or individuals, or to disclose or use for their own benefit confidential information about the company.

• The company will refrain from any practice designed to increase sales on any other basis than the merit of its products and services.

• PepsiCo applies standards of fair treatment to all its employees, in selection, placement, compensation, work environment, potential for self-development and information about matters that affect them.

• The company will continue to provide frank, timely information to its various publics, governments, news media and others about all its activities, except when such information is privileged or would compromise its legal or market standing.

• PepsiCo will continue to observe stringent standards in keeping its records and accounts, reflecting the facts honestly and forthrightly.

(Copies of the full statement are available upon request from the Corporate Affairs Department, PepsiCo, Inc., Purchase, New York 10577.)

Financial Section

Analysis of Operations: In 1976, PepsiCo not only reached new records in sales and earnings but once again set an all-time record in its rate of profit growth. Sales and other operating revenues increased 12 percent from $2.43 billion in 1975 (restated to include Lee Way) to $2.73 billion in 1976. Net income rose 27 percent from a restated $107.5 million in 1975 to $136.0 million in 1976, while earnings per share grew from $4.41 to $5.56. The gains in earnings per share of 26 percent in 1976 and 20 percent in 1975 were by far the best in PepsiCo's eleven-year history.

The sales increases in 1976 resulted principally from major gains in volume, which were particularly strong in the domestic soft drink and snack food businesses. Prices, while generally stable during the year, were up slightly on an average year-to-year basis. Revenue growth was slowed somewhat by the divestiture of certain bottling operations in the latter part of 1975.

In terms of gross profit margins, there was considerable improvement in 1976 as the inflation in material costs eased and further gains in productivity were achieved.

Marketing, administrative and other expenses rose substantially in both 1975 and 1976, primarily reflecting higher volumes and the increased emphasis on advertising and promotion to build the business for the future. This additional investment spending was particularly pronounced in the fourth quarter of 1976 and caused a reduction in net income from the third quarter in spite of higher revenue and gross profit levels. In other respects, fourth-quarter results continued the trend established in earlier quarters. Administrative and other expenses also included substantial increases in pension expense and, in 1976, a charge of $4.5 million associated with the sale of PepsiCo's truck leasing operations and another charge of $4.5 million for foreign currency losses, most of which were incurred in the fourth quarter of the year.

Interest expense was substantially reduced and interest income increased in 1975 and 1976 as a result of favorable cash flow. Total debt declined by $149 million in 1975 and an additional $34 million in 1976. This reduced debt level together with lower prevailing interest rates accounted for the sharp drop in interest expense. At the same time, the level of marketable securities increased $41 million in 1975 and $50 million in 1976, providing the base for rising amounts of interest income.

U.S. and foreign income taxes were 42.0% of income before such taxes in 1974, 44.3% in 1975, and 45.4% in 1976. The increasing trend of the tax rate resulted from a declining proportion of unremitted earnings from foreign operations that are subject to an aggregate tax rate of less than 48%.

The year 1976 represented major progress for PepsiCo in terms of both growth and profitability. For the 10-year period, 1966-1976, earnings per share grew at a compound rate of 11.8% per year and for the most recent 5-year period the rate was 14.8%. Continued emphasis on cost control and productivity improvement contributed to important gains in margins. These gains, plus special attention to the control and management of all categories of assets, led to major improvements in returns on assets and shareholder equity. Profit per dollar of revenue rose from 7.8% in 1975 to 9.1% in 1976 on a pretax basis and from 4.4% to 5.0% on an after-tax basis. Return on assets rose more than two points from 11.3% to 13.4% and return on shareholders' equity increased substantially from 16.4% to 18.1%. This is the highest return on equity in seven years and matches the best level of the last ten years.

In 1976, a major feature of PepsiCo's progress was the outstanding record of the beverage line of business (see table below), paced by the substantial gains in both volume and profits in domestic soft drinks and a substantial recovery in wine. Beverage margins improved after the slight dip in 1975.

LINES OF BUSINESS (1) (in millions of dollars)

Revenues	1976		1975		1974		1973		1972	
	$	%	$	%	$	%	$	%	$	%
Beverage	1,160.5	43	1,064.9	44	981.6	44	829.4	46	661.4	45
Food	911.9	33	806.7	33	673.4	30	521.9	29	445.4	30
Transportation	401.9	15	327.7	14	344.2	16	279.8	16	233.9	16
Sporting Goods	253.1	9	226.9	9	210.6	10	166.9	9	141.4	9
Totals	2,727.4	100	2,426.2	100	2,209.8	100	1,798.0	100	1,482.1	100
Contribution to income before income taxes, corporate interest and expenses										
Beverage	139.3	47	109.0	44	107.6	53	94.1	54	85.3	55
Food	105.6	36	89.5	37	44.4	22	43.6	25	38.7	25
Transportation	22.2	8	22.2	9	24.7	12	18.4	10	18.8	12
Sporting Goods	26.0	9	25.0	10	26.8	13	18.5	11	11.4	8
Totals	293.1	100	245.7	100	203.5	100	174.6	100	154.2	100

(1) Prior years restated to include Lee Way.

The food line of business had another year of very good growth in revenues and profits, with a further improvement in margin following the major gain in 1975. Transportation had an excellent increase in revenues but a very small gain in contribution, primarily because of extra costs associated with a major contract being completed by PepsiCo Building Systems. The total excluding PBS, i.e. the trucking companies, reported strong gains in both revenues and profits. Sporting Goods achieved a very good increase in sales but a somewhat smaller gain in profits, due to slower overseas sales and some continuing margin pressures in the U.S. market. For the two years, 1975 and 1976, PepsiCo's operations outside the U.S. accounted for 22% and 21%, respectively, of the total worldwide revenues, and 17% and 15%, respectively, of total contribution to income before taxes and corporate interest and expenses. Foreign revenues and earnings were both up in 1976 but at rates well below the high growth rates experienced in the domestic operations.

Stock Price and Dividends. The market price range for PepsiCo stock on the New York Stock Exchange and the dividends declared in each quarter of the last two years are set forth in the table below. Quarterly dividends were increased 25% in May 1976 from 40¢ to 50¢. The stock price increased generally in 1975 and 1976, along with the upward trend in the general market.

	Market Price Range ($)			
Quarter	High	Low	Close	Dividend Declared
1975—				
1st qtr.	61¼	39½	59¼	35¢
2nd qtr.	70	56	68	35¢
3rd qtr.	68⅞	56¾	56¾	40¢
4th qtr.	74¼	54½	72	40¢
1976—				
1st qtr.	76½	69⅝	72¼	40¢
2nd qtr.	76½	69½	71	50¢
3rd qtr.	85¾	70⅝	85	50¢
4th qtr.	87½	73¾	77	50¢

Capitalization & Financing. Total consolidated debt of PepsiCo continued to decline in 1976, as a result of the strong cash flow from operations and the continuing efforts to maximize asset utilization and hold to economical levels of working capital in all lines of business. The total debt, after declining by $149 million in 1975, dropped by another $34 million in 1976, to the lowest level in four years. At year-end 1976, the ratio of total debt to total capitalization was down to 30.1 percent, in line with stated corporate objectives. In 1977, despite increased spending to support the growth of the business, it is expected that internal cash flow will be positive and debt levels will not increase.

The improvement in PepsiCo's financial strength and flexibility has continued in 1976, with the combination of debt reduction—from $358.2 million to $324.0 million—and enhanced shareholder equity—up $98.8 million to a record $753.0 million at year-end.

	1976	1975(1)
	(in thousands)	
Current borrowings—domestic	$ 358	$ 27,400
—foreign	41,836	30,913
Total current	42,194	58,313
Long-term debt—current	3,196	3,549
—non-current		
—senior	223,559	240,822
—subordinated	55,029	55,477
Total long-term debt	281,784	299,848
Total interest-bearing debt	$323,978	$358,161

(1) Restated to include Lee Way

Capital Expenditures. Capital spending increased substantially in 1976, in line with plans for investment to support continued growth of the business. The level of spending for the corporation, including the newly-acquired Lee Way trucking business, rose from $75.7 million in 1975 to $121.6 million in 1976. Looking ahead, the strong volume trends, particularly in the snack food and bottling areas, and the continuing opportunities for investments with attractive returns in all areas of the business are likely to generate a further substantial expansion in capital expenditures to a range of $140 to $150 million in 1977.

Consolidated Balance Sheet (in thousands)

PepsiCo, Inc. and Subsidiaries
December 25, 1976 and December 27, 1975

	1976	1975
Assets		
Current Assets		
Cash	**$ 30,819**	$ 21,425
Marketable securities, at cost (approximates market)	**200,482**	150,645
Notes and accounts receivable, less allowance: 1976—$17,534; 1975—$16,061	**313,986**	269,448
Inventories	**256,555**	230,338
Prepaid expenses and other current assets	**36,904**	35,591
	838,746	707,447
Long-Term Receivables and Investments		
Long-term receivables	**44,055**	36,860
PepsiCo Leasing Corporation—at equity	**—**	19,903
Other investments	**2,979**	19,731
	47,034	76,494
Property, Plant and Equipment		
Land	**35,543**	32,583
Buildings	**177,044**	170,336
Machinery and equipment	**571,392**	489,021
Bottles and cases (net of customers' deposits: 1976—$22,854; 1975—$22,041)	**19,260**	22,248
	803,239	714,188
Less accumulated depreciation	**303,543**	267,695
	499,696	446,493
Goodwill—cost in excess of net assets of companies acquired	**131,861**	131,930
Other Assets	**24,313**	34,882
	$1,541,650	$1,397,246

See accompanying notes.

	1976	1975
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (including current installments on long-term debt)	**$ 45,390**	$ 61,862
Accounts payable	**146,882**	124,648
United States and foreign income taxes	**67,753**	34,213
Other accrued taxes	**27,746**	22,652
Other current liabilities	**150,077**	127,609
	437,848	370,984
Long-Term Debt	**278,588**	296,299
Other Liabilities and Deferred Credits	**21,632**	17,947
Deferred Income Taxes	**50,600**	57,800
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding: 1976—24,533,880 shares; 1975—24,360,044 shares	**4,089**	4,060
Capital in excess of par value	**111,496**	102,483
Retained earnings	**637,397**	547,673
	752,982	654,216
	$1,541,650	$1,397,246

Consolidated Statement of Income and Retained Earnings (in thousands)
PepsiCo, Inc. and Subsidiaries
Years ended December 25, 1976 and December 27, 1975

	1976	1975
Revenues		
Net sales	$2,360,231	$2,107,709
Other operating revenues	367,224	318,506
	2,727,455	2,426,215
Costs and Expenses		
Cost of sales	1,206,930	1,133,876
Cost of other operating revenues	284,050	244,652
Marketing, administrative and other expenses	981,991	839,737
Interest expense	27,186	36,147
Interest income	(21,746)	(17,836)
	2,478,411	2,236,576
	249,044	189,639
Provision for United States and foreign income taxes (including deferred: 1976—$6,100; 1975—$20,400)	113,011	84,011
	136,033	105,628
Equity in net income of PepsiCo Leasing Corporation	—	1,852
Net Income	136,033	107,480
Retained earnings at beginning of year, as restated	547,673	476,628
Cash dividends (per share: 1976—$1.90; 1975—$1.50)	(46,309)	(36,435)
Retained earnings at end of year	$ 637,397	$ 547,673
Net Income Per Share	$ 5.56	$ 4.41

See accompanying notes.

Consolidated Statement of Changes in Financial Position (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 25, 1976 and December 27, 1975

	1976	1975
Financial Resources Provided		
Operations		
Net income	**$136,033**	$107,480
Depreciation and amortization	**61,196**	58,310
Deferred income taxes	**6,100**	20,400
Other	**6,075**	398
Total from operations	**209,404**	186,588
Disposal of leasing operations	**21,648**	—
Capital stock (including conversion of debentures)	**9,042**	1,251
Long-term debt	**2,928**	106,058
Property disposals	**12,571**	18,350
Bottles and cases, net	**2,988**	12,340
	258,581	324,587
Financial Resources Applied		
Dividends	**46,309**	36,435
Plant and equipment	**121,620**	75,716
Long-term debt	**22,174**	176,772
Other	**4,043**	1,833
	194,146	290,756
Increase in working capital	**$ 64,435**	$ 33,831
Increase (Decrease) in Working Capital, by Element		
Cash	**$ 9,394**	$ 4,246
Marketable securities	**49,837**	41,105
Notes and accounts receivable	**44,538**	(1,187)
Inventories	**26,217**	(37,767)
Prepaid expenses and other current assets	**1,313**	1,895
Notes payable	**16,472**	78,667
Accounts payable	**(22,234)**	(20,839)
United States and foreign income taxes	**(33,540)**	(2,194)
Other accrued taxes	**(5,094)**	(525)
Other current liabilities	**(22,468)**	(29,570)
Net increase in working capital	**64,435**	33,831
Working Capital at Beginning of Year	**336,463**	302,632
Working Capital at End of Year	**$400,898**	$336,463

Note 1—Summary of significant accounting policies.

Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated.

Foreign Operations. The foreign currency financial statements of PepsiCo's overseas operations and other foreign currency transactions have been translated and accounted for in accordance with Statement of Financial Accounting Standards No. 8. The accompanying 1975 financial statements have been restated to conform to the 1976 presentation. The restatement has the effect of decreasing retained earnings at December 28, 1974 by $3,510,000, representing unamortized translation charges on the 6¼% Swiss franc loan (see Note 6), and of increasing 1975 net income by $568,000, representing 1975 exchange rate differences and reversal of amortization previously recorded.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant and Equipment. Land, buildings and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over estimated useful lives of the respective assets. Upon the sale or retirement of property, the property accounts and related depreciation reserves are appropriately adjusted and any profit or loss is reflected in income. Maintenance and repairs are charged to expense as incurred.

Valuation of returnable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage is charged to cost of sales. Returnable bottles and cases are adjusted to deposit value within one year of acquisition. In foreign operations, returnable bottles and cases and the related customer deposits are translated into U.S. dollars at current rates of exchange.

Goodwill. The excess of cost over net tangible assets of companies acquired prior to November 1, 1970 (approximately $53,000,000), is not amortized unless there is an impairment of value. The remaining $79,000,000 is amortized over appropriate periods not exceeding 40 years.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. PepsiCo includes all domestic subsidiaries in its consolidated federal income tax return except those companies engaged in business within Puerto Rico.

Deferred income taxes arise from timing differences between financial and tax reporting, principally for depreciation and, in 1975, income recognition on certain leases. Benefits from investment tax credits are amortized over the estimated useful lives of the related assets.

Additional taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the U.S. have been reinvested indefinitely in foreign operations. Accordingly, no provision has been made for additional taxes, not material in amount, that might be payable with respect to such earnings in the event of remittance.

Net Income Per Share. Net income per share is computed by dividing consolidated net income by the average number of common shares and common share equivalents (stock options) outstanding during each year. The conversion of all convertible debentures and the issuance of common shares for Performance Share Plan units would result in a dilution of less than 3%.

Note 2—Merger with Lee Way Motor Freight, Inc.
In August, 1976, a wholly-owned subsidiary of PepsiCo merged with Lee Way Motor Freight, Inc., after receiving the approval of the Interstate Commerce Commission and other regulatory agencies. Under the merger agreement, PepsiCo issued 609,155 shares of its capital stock for the outstanding Lee Way common stock. The transaction was accounted for as a pooling-of-interests, and PepsiCo's 1975 consolidated financial statements have been restated to include Lee Way. The restatement had the effect of increasing net income and opening retained earnings for 1975 by $2,312,000 and $17,098,000 respectively.

Note 3—Discontinued leasing operations. PepsiCo has completed its previously announced program of divestiture of its major leasing operations.

In March, 1976, PepsiCo's truck rental operations were sold to Gelco Corporation. In connection with this transaction, a charge was made to first-quarter net income of $3,765,000, after giving effect to $693,000 of related tax benefits.

In July, 1976, the Chandler Leasing Division of PepsiCo Leasing Corporation was sold to Walter E. Heller International Corporation. Under the agreement, as revised, PepsiCo received

cash approximately equal to the carrying value of its former investment in Chandler.

In separate transactions, PepsiCo also disposed of the remaining leasing operations of its former leasing division for their approximate carrying values.

Note 4—Foreign operations. Total assets and total liabilities of consolidated subsidiaries and branches outside the U.S. and Puerto Rico at December 25, 1976 were $341,152,000 and $173,462,000, respectively. Sales to customers outside the U.S. were $568,339,000 in 1976 and $535,041,000 in 1975. Foreign exchange losses were $4,500,000 in 1976 and $1,800,000 in 1975 before related tax benefits.

Note 5—Inventories. Inventories at December 25, 1976 and December 27, 1975 are summarized as follows:

	1976	1975
	(in thousands)	
Finished goods	$101,800	$ 98,152
Raw materials, supplies and in-process	145,953	119,614
Equipment held for resale	8,802	12,572
	$256,555	$230,338

Note 6—Long-term debt. At December 25, 1976 and December 27, 1975, long-term debt (less current installments of $3,196,000 due in 1977, and $3,549,000 due in 1976) consisted of:

	1976	1975
	(in thousands)	
8⅝% notes due 1981	$ 75,000	$ 75,000
8¼% notes due 1985	100,000	100,000
6¼% 60,000,000 Swiss franc loan (Sw.Fr. 5,000,000 due annually from 1984 to 1987, with balance due in 1988)	24,510	22,800
4¾% convertible subordinated debentures ($2,500,000 due annually from 1982 to 1995, with balance due in 1996)	49,968	49,990
4½% convertible debentures due 1981	—	5,648
Other	29,110	42,861
	$278,588	$296,299

Long-term debt amounts maturing after 1977 are as follows: 1978, $3,057,000; 1979, $3,459,000; 1980, $6,653,000; 1981, $76,313,000; and subsequently, $189,106,000.

The debt agreements to which PepsiCo is a party include various restrictions, none of which is currently significant to PepsiCo.

Note 7—Capital stock and capital in excess of par value. The changes in capital stock and capital in excess of par value are summarized below:

	Capital Stock Shares	Capital Stock Amount	Capital in excess of par value
	(dollars in thousands)		
Balance as previously reported—December 28, 1974	23,722,950	$3,954	$89,932
Shares issued in pooling-of-interests with Lee Way Motor Freight, Inc.	610,035	102	11,304
Balance as restated—December 28, 1974	24,332,985	4,056	101,236
Conversion of debentures	26,164	4	1,158
Exercise of stock options	1,775	—	92
PepsiCo equivalent of treasury shares acquired by Lee Way prior to merger	(880)	—	(3)
Balance as restated—December 27, 1975	24,360,044	4,060	102,483
Conversion of debentures	117,920	20	5,250
Exercise of stock options	55,916	9	3,763
Balance at December 25, 1976	24,533,880	$4,089	$111,496

Shares reserved at December 25, 1976 were as follows:

Stock option plans	990,050
4¾% convertible subordinated debentures (at $63.50 per share)	786,898
Performance Share Plan	579,534
	2,356,482

At December 25, 1976, options were outstanding on 524,872 shares (of which 139,436 were then exercisable), including 15,411 shares representing options assumed pursuant to the terms of the Lee Way merger agreement (see Note 2), having an aggregate option price of $36,812,000. The balance of 465,178 shares reserved is available for future grants under PepsiCo's 1969 and 1975 Plans. In 1976, options for 55,916 shares were exercised having an aggregate option price of $3,772,000; options were granted for 190,990 shares having an aggregate option price of $14,843,000, and options for 35,986 shares were cancelled.

Under the 1972 Performance Share Plan for key executive employees, as amended, the Compensation Committee of the Board of Directors may award up to 650,000 performance share units, each unit being limited to the market value of a share of PepsiCo capital stock on date of grant. A participant's award is forfeited unless he remains continuously in the employ of PepsiCo during the award period, except in the case of death, disability, or early retirement at the request of PepsiCo. Units are not earned or paid unless PepsiCo achieves stated cumulative growth rates in net income per share over the four-year period following the award.

Payments may be made in cash, or in capital stock, or combination thereof, as the Committee decides. At December 25, 1976, 70,466 units had been earned by participants under the 1972 award. During 1974 and 1976, additional units were awarded of which 95,841 and 134,197 units, respectively, were outstanding at December 25, 1976. The cost of the awards made under the Plan is being charged to income ($4,305,000 in 1976 and $2,311,000 in 1975) over the applicable four-year period. Participants may elect in advance to defer receipt of payment of awards.

Note 8—Leases and commitments. PepsiCo and its subsidiaries have commitments for rental of office space, plant and warehouse facilities, vehicular equipment and other personal property. Rental expense in 1976 and 1975 was $27,941,000 and $22,388,000, respectively. Lease commitments expiring at various dates to 2034 have minimum aggregate annual rentals (exclusive of insurance, taxes and repairs), declining from approximately $18,000,000 in 1977 to $9,000,000 in 1981 and lesser amounts thereafter.

At December 25, 1976, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating $23,500,000.

Note 9—Income taxes. U.S. and foreign income taxes have been provided at less than the statutory U.S. federal rate of 48% since unremitted earnings of foreign operations are subject to a lower aggregate tax rate. This is principally because a substantial portion of the earnings of a U.S. subsidiary operating in Puerto Rico (which have been invested in marketable securities) are not taxable.

Note 10—Pensions. PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union) and certain of its employees outside the U.S. PepsiCo's policy is to accrue and fund current cost and interest, as well as amortization of prior service cost over 30 years. The excess of vested benefits over fund assets of two of the plans was approximately $5,700,000; for all plans combined, assets exceeded vested benefits. Pension expense was approximately $21,500,000 in 1976 and $18,000,000 in 1975.

Note 11—Litigation. In 1971, the Federal Trade Commission (FTC) issued complaints against eight soft drink manufacturers, including PepsiCo and its principal competitors, alleging that exclusive territorial restrictions imposed upon its soft drink bottlers in the United States unreasonably restrained trade. In October, 1975, the FTC Administrative Law Judge dismissed the complaint against PepsiCo, and counsel for the FTC appealed this decision to the FTC. Management and its counsel cannot evaluate the future financial or business effects, if any, on its domestic concentrate and syrup manufacturing or soft drink bottling business should the dismissal be reversed by the FTC and that reversal subsequently affirmed by the courts, thereby resulting in a final determination that such exclusive territorial restrictions are illegal.

PepsiCo and its subsidiaries are involved in various other litigation matters, but believe that any such litigation will not have a material effect on the consolidated financial statements.

The Company intends a vigorous defense of these matters.

Note 12—Quarterly financial data (unaudited). Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1976 are as follows:

	Quarters Ended			
	March 20	June 12	Sept. 4	Dec. 25
Net sales and other operating revenues	$537,368	$657,027	$697,585	$835,475
Gross profit	$241,026	$302,846	$316,247	$376,356
Net income	$ 20,987	$ 36,034	$ 42,110	$ 36,902
Net income per share	$ 0.86	$ 1.48	$ 1.72	$ 1.50

As a result of the merger of PepsiCo and Lee Way Motor Freight, Inc. (see Note 2), net income previously reported was increased by $421,000 and $1,006,000 in the quarters ended March 20, 1976 and June 12, 1976. The merger had no effect on the previously reported net income per share for those quarters. See Note 3 for effect of disposal of discontinued leasing operations.

Note 13—Replacement cost information (unaudited). Pursuant to new requirements of the Securities and Exchange Commission, PepsiCo has made certain estimates of the replacement cost of its entire productive capacity and inventories located in North America and Western Europe. The computations were based on the hypothetical assumption that PepsiCo would replace buildings, machinery and equipment at the end of the year using the latest proven technology, without regard to the availability or cost of funds for such replacement. No attempt was made to estimate the cost savings which might be expected from increased operating efficiencies of new facilities. Because the estimating procedures require the making of numerous subjective decisions, PepsiCo cannot warrant the accuracy of the estimates contained herein.

The computations indicate that the estimated replacement cost of buildings, machinery and equipment would be approximately 48% above original cost when acquired. The estimated replacement cost does not represent amounts for which such facilities could be sold, nor should compliance with this requirement be interpreted to indicate that the Company actually plans to sell or replace the assets at this time, or in the manner or at the cost assumed in this estimate. Depreciation expense on assets located in North America and Western Europe and charged to cost of sales, selling, general and administrative expenses, totaled $52,200,000 in the historical cost statements. Depreciation expense on assets at replacement cost for the same geographic area would have approximated $97,600,000. The computed estimated replacement cost of inventory was not materially greater than the reported historical amounts (see supplementary information included in Form 10-K for replacement cost details).

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 25, 1976 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 25, 1976 and December 27, 1975 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period after the required restatement, with which we concur, explained in Note 1.

Arthur Young & Company

277 Park Avenue
New York, N.Y.
February 18, 1977

Ten-Year Comparative Summary
PepsiCo, Inc. and Subsidiaries

	1976	1975	1974
Summary of Operations (in thousands except per common share)			
Net sales and other operating revenues	**$2,727,455**	$2,426,215	$2,209,753
Cost of sales and services	**1,490,980**	1,378,528	1,289,213
Marketing, administrative and other expenses	**981,991**	839,737	741,409
Interest expense	**27,186**	36,147	44,781
Interest income	**(21,746)**	(17,836)	(16,086)
	2,478,411	2,236,576	2,059,317
	249,044	189,639	150,436
U.S. and foreign income taxes	**113,011**	84,011	63,167
	136,033	105,628	87,269
Equity in net income of PepsiCo Leasing Corporation	**—**	1,852	2,345
Net income	**136,033**	107,480	89,614
Per common share	**$ 5.56**	$ 4.41	$ 3.68
Cash dividends	**46,309**	36,435	31,745
Per common share	**$ 1.90**	$ 1.50	$ 1.30
Additions to property, plant and equipment	**121,620**	75,716	125,820
Depreciation and amortization	**61,196**	58,310	54,052
Average common shares outstanding	**24,484**	24,362	24,327
Year-End Position (in thousands except per common share)			
Working capital	**400,898**	336,463	302,632
Property, plant and equipment—net	**499,696**	446,493	459,046
Total assets	**1,541,650**	1,397,246	1,412,916
Long-term debt	**278,588**	296,299	367,013
Shareholders' equity	**752,982**	654,216	581,921
Per common share	**$ 30.69**	$ 26.86	$ 23.91
Common shares outstanding	**24,534**	24,360	24,340
Statistics and Ratios			
Current assets to current liabilities	**1.9 to 1**	1.9 to 1	1.8 to 1
Return on shareholders' equity	**18.1%**	16.4%	15.4%
Return on revenues	**5.0%**	4.4%	4.1%
Long-term debt/total capitalization	**27.2%**	31.4%	38.9%
Employees	**54,000**	52,000	53,000
Shareholders	**41,000**	44,000	46,000

This summary has been retroactively adjusted for (a) companies acquired in transactions accounted for as poolings of interest (except for Monsieur Henri Wines, Ltd., which is included only since 1971 and which did not have a material effect on prior years) and for (b) the effects of compliance with Financial Accounting Standards Board Statement No. 8 on foreign currency transactions. All sales of Wilson Sporting Goods Company have been included from the time of purchase in February, 1970, and earnings have been included in proportion to PepsiCo's ownership.

Before extraordinary items

1973	1972	1971	1970	1969	1968	1967
$1,798,023	$1,482,178	$1,309,610	$1,176,491	$1,005,508	$895,606	$795,541
1,005,484	809,342	722,982	654,030	548,251	489,949	430,170
632,053	530,117	457,946	409,944	358,035	314,879	289,299
26,947	15,757	16,367	16,887	7,753	7,291	7,496
(11,453)	(7,988)	(6,697)	(4,557)	(4,183)	(3,096)	(2,937)
1,653,031	1,347,228	1,190,598	1,076,304	909,856	809,023	724,028
144,992	134,950	119,012	100,187	95,652	86,583	71,513
66,158	61,890	53,702	42,839	44,208	41,093	30,010
78,834	73,060	65,310	57,348	51,444	45,490	41,503
2,699	2,638	990	418	2,593	2,814	1,937
81,533	75,698	66,300	57,766	54,037*	48,304	43,440
$ 3.36	$ 3.14	$ 2.79	$ 2.50	$ 2.37*	$ 2.13	$ 1.93
27,783	24,031	23,498	22,144	22,257	20,081	19,237
$ 1.14	$ 1.00	$ 1.00	$ 1.00	$ .98	$ .90	$ .88
100,643	72,741	57,687	69,766	78,739	46,658	41,461
46,128	37,988	33,295	28,692	27,036	24,681	23,071
24,280	24,140	23,805	23,065	22,799	22,654	22,529
163,893	160,954	149,043	96,404	53,910	84,527	82,046
396,795	342,653	312,221	283,171	235,960	202,729	178,307
1,207,282	993,268	879,669	802,228	585,779	512,784	455,008
249,121	231,527	204,400	191,280	103,214	77,674	82,209
522,422	463,804	403,631	342,340	298,485	272,304	242,064
$ 21.50	$ 19.18	$ 16.87	$14.74	$13.03	$11.99	$10.71
24,300	24,179	23,929	23,233	22,899	22,706	22,608
1.4 to 1	1.7 to 1	1.7 to 1	1.4 to 1	1.3 to 1	1.5 to 1	1.7 to 1
15.6%	16.3%	16.4%	16.9%	18.1%	17.7%	17.9%
4.5%	5.1%	5.1%	4.9%	5.4%	5.4%	5.5%
32.9%	33.8%	34.1%	36.5%	26.7%	23.1%	26.0%
52,000	43,000	40,000	38,000	32,000	30,000	27,000
48,000	48,000	49,000	50,000	53,000	52,000	50,000

PepsiCo, Inc. Directors

Donald M. Kendall
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.

Herman W. Lay
Chairman of the Executive Committee, PepsiCo, Inc.

Andrall E. Pearson
President, PepsiCo, Inc.

Victor A. Bonomo
President and Chief Executive Officer, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

William T. Coleman, Jr.[1]
Distinguished Fellow, Woodrow Wilson International Center for Scholars

Clifton C. Garvin Jr.
Chairman and Chief Executive Officer, Exxon Corp.

T. Vincent Learson
Retired Chairman, Member of the Board of Directors, International Business Machines Corporation

Harold R. Lilley
Chairman of the Board and Chief Executive Officer, Frito-Lay, Inc. and Vice President, Food Operations (U.S.), PepsiCo, Inc.

William L. Lindholm[2]
President, American Telephone & Telegraph Co.

James M. Roche
Member of the Board of Directors and Finance Committee, General Motors Corporation

Herman A. Schaefer
Executive Vice President, Finance and Administration, PepsiCo, Inc.

Robert H. Stewart III
Chairman of the Board, First International Bancshares, Inc.

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

Caspar W. Weinberger
Member of the Board of Directors and Vice President, Bechtel Power Corporation, Bechtel Incorporated and Bechtel Corporation

[1]Subject to approval by the Civil Aeronautics Board
[2]Retiring March 31, 1977

Committees

Audit Committee:
Messrs. Garvin, Roche and Stewart

Executive Committee:
Messrs. Kendall, Lay, Pearson, Roche and Stewart

Officers

Donald M. Kendall
Chairman of the Board and Chief Executive Officer

Herman W. Lay
Chairman of the Executive Committee

Andrall E. Pearson
President

Herman A. Schaefer
Executive Vice President, Finance and Administration

Robert J. Abernethy
Vice President, Manufacturing

Darrell Agee
Vice President, U.S. Bottling

Richard I. Ahern
Vice President, International Bottling

Victor A. Bonomo
Vice President, Beverage Operations (U.S.)

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Vice President, Treasurer

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Vice President, General Counsel and Secretary

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I. M. von der Heyden
Vice President, Controller

Peter K. Warren
Vice President, International Operations

Vincent M. Burke
Assistant Controller

Douglas E. Moran
Assistant Controller

Leonard Schutzman
Assistant Controller

W. Lamar Lovvorn
Assistant Secretary

Walter S. Rosenstein
Assistant Secretary

William R. Lewis
Assistant Treasurer

Margaret D. Moore
Assistant Treasurer

Executive Offices

PepsiCo, Inc.
Purchase, New York 10577
(914) 253-2000

Principal Divisions and Subsidiaries

Pepsi-Cola Company
Purchase, New York 10577
Victor A. Bonomo, *President*

Frito-Lay, Inc.
Frito-Lay Tower, Exchange Park,
Dallas, Texas 75235
Harold R. Lilley, *Chairman*

Monsieur Henri Wines, Ltd.
700 Anderson Hill Road,
Purchase, New York 10577
Norman Heller, *President*

PepsiCo International
Purchase, New York 10577
Peter K. Warren, *President*

PepsiCo Transportation
PepsiCo Place, 525 South Main,
Tulsa, Oklahoma 74103
Richard J. Caley, *President*

Wilson Sporting Goods Co.
2233 West Street, River Grove, Illinois 60171
Frank L. Peck, *President*

PepsiCo Foods International
Purchase, New York 10577
John Sculley, *President*

Shares of PepsiCo, Inc. Capital Stock are listed and traded on the New York and Midwest Stock Exchanges.

Copies of the Corporation's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, N.Y. 10577.

Auditors

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277 Park Avenue
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Transfer Agents

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First National Bank in Dallas
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(214) 744-8464

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New York, New York 10015
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First National Bank in Dallas
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(214) 744-8464

Dividend Reinvestment Agent

Citibank, N.A.
111 Wall Street
New York, New York 10015
(212) 558-7409

Annual Meeting

The Annual Meeting of stockholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 4, 1977. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

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